Commodity Reports

Steel

Prepared by the N.A.P.M. Steel Committee; chairman, Daniel R. Krause, C.P.M., The Budd Company, Troy, MI.

The USX strike, coupled with the long awaited steel import reductions, as mandated by the Voluntary Restraint Agreements (VRA's), has caused a temporary short fall in the availability of selected sheet steel products in the United States.

This shortfall, in turn, has given the major steel mills the opportunity to increase the prices of their products. At the present time, these increases have, for the most part, only affected the spot buy market distributors and smaller purchasers, but not the major contract steel buyers.

Whether or not these price increases will be supported will depend upon several factors, i.e., the aggressiveness of the USX pricing policy as it re-enters the market; the continued adherence to the VRA percentages; the yen-dollar relationship; and sales levels of the automotive and appliance markets.

As 1987 begins, we still find a domestic steel industry with too much capacity, which is really the key problem to becoming profitable. If USX follows the lead of Wheeling-Pittsburgh and LTV in making significant capacity reductions, then the market may support the current price increases. On the other hand, these capacity reductions will take time and, if so, we may again see a buyer's market in mid-1987.

In the long term, world-wide steel capacity exceeds demand, with some capacity reductions taking place in both Europe and Japan. Some of the other countries under VRA's are also taking a more cautious attitude toward adding extra capacity.

When some of the new markets for steel products (i.e., China) start to demand more from an industry that has trimmed back to survive, we may again see a strong seller's market, supporting price levels which could lead to the return to profitability of the domestic steel industry.

When this occurs, our domestic steel industry should be well placed to provide high quality products at competitive prices to the user, and at a profit. These prices will be higher than today's level, but, lower and more competitive as compared to world-wide pricing.

Other factors will, of course, tend to affect both the near and long-term possibilities. Some of these will include import regulations, VRA continuation, management restraint, Union/Management relationships, and the level of activity of the steel intensive capital goods industries.

For those who are not doing so, this may be the year for the alert steel buyer to determine what long-term steel sourcing arrangements should be made for the future. (Submitted by Robert C. Smith, Jr., Kelsey-Hayes Company, Romulus, MI.)

Energy

Prepared by the N.A.P.M. Energy Committee; chairman, Howard T. Perley, C.P.M., International Paper Company, New York, NY.

Petroleum Products

OPEC's agreement in late December to establish crude oil production ceilings, quickly raised world crude oil prices by about $4.00 per barrel. This, coupled with stronger demand due to abnormally cold weather in Europe and U.S., caused residual fuel oil prices to rise sharply, with winter heating oil prices following suit.

However, residual fuel and heating oil prices have now dropped substantially with warmer weather in Europe; they are both expected to stay near their current levels until spring weather approaches.

Natural Gas

Due largely to the rise in oil prices, spot market gas prices firmed up in late 1986 after declining steadily for almost three years. Nearly one-third of industrial gas usage, and almost all of the gas used by electric utilities, is readily interchangeable with fuel oil, so spot gas prices generally react within weeks to shifts in fuel oil prices, particularly in the spring and summer. Short term or spot gas purchases now account for about a quarter of U.S. consumption, but purchases by gas utilities under long-term contracts — which represent most of the balance — generally lag behind changes in oil prices by several months due to regulatory delays.

If oil prices stay in the range of $15 to $22 per barrel, prices at the wellhead will likely range from $1.50 to $2.25 per million BTUS. Higher prices are unlikely because available suppy still exceeds demand by a substantial amount.

"Natural Gas Transportation — Your 'Pipeline' to Profits" will be explored in depth on May 5, 1987, in Session SE of the Annual International Purchasing Conference in New York. Be sure to participate. (Ian G. Mackenzie, C.P.M., Corning Glass Works, Corning, NY)

Coal

1986 production and consumption were slightly less than in 1985, but modest increases for both are projected in 1987. Barring some unforeseen event, 1987 market conditions should almost mirror 1986 and continue soft. Although the United Mine Workers now represent a minority of U.S. production, their contract expires in January 1988, and a strike is possible. This situation bears watching as the year progresses, because prices may strengthen near year-end as the result of a strike. Congressional efforts to enact acid rain legislation in 1987 should also be watched closely. (W. T. Robertson, Jr., C.P.M., Duke Power Company, Charlotte, NC)